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ABSTRACT

A labor market-oriented study of the effects of internationalization provided background for National Commission for Employment Policy (NCEP) recommendations on ways to enhance the ability of the U.S. economy to compete in world markets. The analysis focuses on three major dimensions: (1) trade in goods and services; (2) immigrants (legal and illegal) and refugees; and (3) investment in physical and human capital. The first half of the 1980s was characterized by an expansive fiscal policy combined with a restrictive monetary policy. The resulting pattern of demand favored job growth in service and white collar jobs, often displacing workers in the manufacturing sector. Trade can be viewed as part of the solution of economic realignment. Research on immigrants and refugees concentrated on empirical studies in specific local and regional labor markets. Factors such as time in the United States, knowledge of English, previous educational attainment, and the availability of family or ethnic group support affect the rate at which new arrivals enter the economic mainstream. An important characteristic of investment in the modern world is that it takes place across international boundaries. Investment in human capital is an international phenomenon, an important part of economic competitiveness. In order to remain competitive, the country's work force must be improved to increase productivity. Public and private resources should be allocated to education. Saving and investing is favored over borrowing and consuming, to help the economy work more equitably and efficiently. However, the international dimension shortens the amount of lead time to respond. (A list of NCEP-sponsored research on employment and internationalization, 13 references, and a list of NCEP publications are included.) (NLA)

U.S. Employment in an International Economy

Report No. 24

June 1988

NCEP

National Commission for Employment Policy
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TO THE PRESIDENT AND THE CONGRESS OF THE UNITED STATES:

On behalf of the National Commission for Employment Policy, I am pleased to submit this policy statement and report on U.S. employment in an international economy.

During the past decade, the United States has become more exposed to and influenced by foreign competition in goods and services. Our staff report documents and analyzes how internationalization and other factors have affected employment. The Commission's policy statement addresses issues under three main categories — labor market changes, strategies to enhance competitiveness, and policy recommendations directed toward attaining increased investment in human resources:

* The primary cause of declining U.S. competitiveness has been the appreciation of the dollar during the first half of the 1980s. The growth in the trade deficit and its mirror image, increased foreign capital flows, are primarily macroeconomic in origin. The result was to favor job growth in the non-traded versus the traded sector of the economy.

* Displacement was disproportionately concentrated in durable manufacturing, with unskilled and semiskilled workers bearing the brunt of the reduction in employment opportunities. However, the manufacturing sector remains critical to international trade performance, and signs of productivity resurgence can be discerned.

* Foreign-born workers account for a substantial share of recent labor force growth, and will continue to do so even with new immigration legislation in place. Impacts of this inflow on the labor markets studied have been generally positive, and immigrant status *per se* does not seem a barrier to entering the economic mainstream.

* Gains from increased trade have been broadly distributed in the United States, via lower inflation, greater diversity and quality of products, and increased real incomes. Costs of increased trade have been more concentrated on particular groups of workers and import-affected firms. Protectionism has the dual effect of redistributing the benefits and costs: gains are lowered for consumers facing higher prices and costs are lowered for producers in part by subsidies financed by taxpayers in general.

* The Commission concludes that greater adaptability and enhanced skill development are needed to cope with competitive challenges. It details the characteristics that effective adjustment programs have in common, and calls for renewed Federal leadership and resources in aiding all members of the workforce to achieve their potentials. Such investment in human capital is needed throughout the economy, not just in the sectors exposed to international competition.

The Commission and its staff hope that this document will be helpful to you and others in both the public and private sectors who are concerned with the response of the United States to these new economic realities. We believe that our findings on this and earlier projects on changes in the workplace are consistent with the Commission's mandate to advise on broad employment and training issues of national significance.

Gertrude C. McDonald

GERTRUDE C. MCDONALD
Chairman

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Introduction

Two centuries ago, one of the arguments for a strong Federal constitution for the recently-independent United States was that it would help create a larger "common market" from the diverse set of thirteen States strung along the Atlantic seaboard. At the time, the economies of those erstwhile colonies were probably less economically integrated than the developed countries of the world are today. But then, as now, there were three key dimensions through which economic integration functioned: trade, immigration and investment. All three were important in the development of the United States as a continental economy and all three continue to be important as the United States becomes increasingly integrated into the world economy.

The post-World War II pattern of U.S. trade surpluses and net lending to the rest of the world lasted until 1982. Since then, U.S. imports have far outstripped U.S. exports and the country has moved from being the world's largest creditor to being its largest debtor. The most immediate causes of the trade deficit and mounting international debt are U.S. macroeconomic policies. Large Federal budget deficits and an anti-inflationary monetary policy during the first half of the 1980s produced large borrowing needs and high real interest rates that attracted foreign capital. The resulting demand for dollars drove up the foreign exchange value of the dollar and increased the attractiveness of foreign goods relative to U.S. goods. Slow growth in other developed countries and the debt servicing problems of less developed countries further reduced foreign demand for American exports. U.S. imports surged and exports stagnated, creating not only large trade deficits in recent years, but also severe disruption for workers in trade-affected industries. Although these imbalances must eventually be corrected, it remains to be seen exactly how this will be accomplished, and what the implications of specific policy choices and adjustment paths will be for the future standard of living in the United States.

Economic interdependence is just one way in which the world is becoming more interrelated. Political and ecological interdependence have also increased with increased populations, communications and consumption levels. The Commission's work focused on the economic aspects of internationalization, but any policy recommendations, including those advanced here, should be viewed in this larger context.

The findings and recommendations in this statement have been discussed and adopted at several different Commission meetings. Some were transmitted to the Congress and the Administration in earlier statements, both published and unpublished.

Research and Policy Questions

The Commission's sponsored research and staff analyses were first directed to two major questions: First, how have jobs and earnings been affected by internationalization? Second, how can human resource policies and programs aid those facing the adjustments made necessary by internationalization?

As the project proceeded, however, it became clear that a number of simultaneous and interdependent factors, including but not limited to trade, immigration and international investment, have had pervasive impacts on firms and workers. Among these factors are domestic and international macroeconomic policies, technological change that affects production and consumption decisions, deregulation of markets in telecommunications and transportation, and antitrust policies affecting the ability of firms to collaborate in research and development activities. Consequently, issues are addressed in this statement under three broad headings: changes in labor and product markets; goals and strategies for United States competitiveness; and policy recommendations directed toward meeting those goals and strategies.

Changes in Labor and Product Markets

As the world's dominant economic power for over forty years, the United States has played a major role in international markets for goods and services. Because its output has been a large share of world output, even the relatively small percentage of U.S. Gross National Product entering international commerce has had effects on the economies of other countries. In recent years, economic activity in the rest of the world has had increased impacts on U.S. economic life as well. The United States has become more like other countries, which as a matter of course have had to take into account in policy formation the interactions between themselves and their trading partners and competitors.

During the first half of the 1980s, the major channel through which international markets affected U.S. markets was the appreciation of the dollar against other major currencies by an average of nearly 50 percent. A decline in the relative price of imports of over 20 percent helped the monetary authorities to contain inflation by putting additional pressure on domestic prices. From 1985 on, the exchange rate appreciation has been partially reversed by depreciation of the dollar against most, but not all, of the United States' major trading partners. Because of the time lags associated with adjustments in export and import patterns, only in 1987-88 has improvement been discernable in U.S. trade performance in terms of goods volumes. Because of the time lags associated with legislation, only in 1987-88 did the Congress pass and the President veto a trade bill concerned in large part with problems that were aggravated by dollar appreciation. Many of the pressures to which the trade bill responded should be reduced as exchange rates stabilize at sustainable levels, but others will require further structural and policy adjustments.

Major findings and conclusions from the accompanying staff report include:

o Appreciation of the dollar during the first half of the 1980s against competitor currencies was the primary cause of the declining competitiveness of U.S. industries. In addition to direct price

competition, appreciation also motivated expansions or relocations of production facilities abroad, which are unlikely to be reversed even with the current dollar depreciation. Uncertainty about the magnitude and direction of exchange rate movements also plays a role in firms' decisions to maintain production facilities in a number of countries, including the decisions of foreign firms to locate plants in the U.S. over the past several years.

o The major impact on U.S. employment of increased imports outpacing exports, under the monetary and fiscal policies of the 1980s, was to reallocate jobs across or within industries. The numbers of jobs in firms facing increased import competition grew more slowly or declined, while firms handling these imports or involved in other activities grew more rapidly than they would have done under an alternative scenario in which the trade deficit stayed at its lower 1980 level. Projections of similar scenarios to 1990 indicate similar compositional shifts could be expected, but that sustained economic growth has been and will be more important to employment growth than any particular deficit configuration or pattern of labor demand.

o Worker displacement during the 1979-84 period was disproportionately concentrated in durable manufacturing, in such traditionally high-wage sectors as steel and automobiles. Those workers who were permanently displaced from such industries tended to find new employment only at lower levels of pay. There does seem to be some evidence, however, that a substantial majority of workers laid off from "declining" industries who stay in the labor force later obtain jobs with their former employers. This tendency for continued attachment and recall mitigates the reduced earnings experienced by individuals. Workers who would otherwise have been hired had the industry not contracted tend to be paid less in alternative jobs, thus having an impact on the aggregate earnings structure.

o Improved competitiveness in the long term is dependent on a continued flow of innovations in products and processes. The manufacturing sector will therefore continue to be crucial to U.S. trade performance, requiring substantial investments in equipment and in employees. Industries with significant shares of output being sold abroad tend to be industies with above average levels or proportions of spending on research and development. Such spending requires trained personnel as well as equipment and facilities. It is also true, however, that gains in productivity in the non-traded as well as the traded sectors improve our living standards, so that it is important that physical and human capital investment be increased throughout the economy.

o Despite the increasing attention being paid to the potentials and problems associated with trade in services, most non-energy trade, especially among developed countries, involves exchange of manufactured goods. For countries in general, and the U.S. in particular, large trade deficits in goods can not be sustained over the long term. It is unrealistic to expect that historically large deficits in manufactures trade can be offset by surpluses in services. One view of the trade deficit is that during the 1980s, the United States has consumed more than it has produced, and in effect paid for the difference with IOU's. A second, not necessarily contradictory view, focuses on the relative attractiveness of dollar investment opportunities, leading to both the appreciation of the dollar experienced prior to 1985 and to the ability of the U.S. to import more goods and services than it exported.

o However, for the United State to regain a sustainable international position consistent with rising living standards over the long run, U.S. economic strategy must include a significant reduction in the merchandise trade deficit. In recent months, evidence is accumulating that this reduction has begun based on dollar depreciation and improved productivity growth in the manufacturing sector. Both the currency realignment and the actual declines in unit labor cost of manufactured goods aid the competitive position of the United States.

o Immigration (legal and illegal) and admission of refugees account for an increasing proportion of U.S. labor force growth over the 1980s. Proficiency in English is an important factor in the new arrivals' successful entrance to the economic mainstream. The economic and social impact on regions and labor markets has been uneven, but generally positive, with the greatest stresses in areas with the highest concentrations of undocumented workers, such as California and Texas.

o In general, residents of the United States and of its trading partners have gained from internationalization and economic integration, even in a world of less than pure competition and less than free trade. These gains are realized through lower inflation, greater diversity and quality of products, and higher real incomes as more resources are available for other products. Protectionism abroad or at home lowers the realized gains from trade by imposing higher prices and/or restricting quantities of imports, as well as redistributing the benefits away from all consumers as a group to the minority whose incomes are derived from the protected sectors.

Goals and Strategies for Improved Competitiveness

In order to discuss how to improve competitiveness, it is first necessary to define it. The President's Commission on Industrial Competitiveness offered the following definition:

> Competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens.
>
> — Global Competition: The New Reality (January 1985)

Because the rate of growth of real income (income adjusted for inflation) can vary, competitiveness is a matter of degree. "Meeting the test of international markets" implies that imports and exports are in approximate balance over some longer term without a currency depreciation that would tend to reduce national purchasing power and income. "Free and fair" conditions are both part of the definition and a policy goal in their own right.

However, most of the responsibility for improving competitiveness rests with the United States itself. Progress in reducing the Federal budget deficit is key to restoring approximate balance in the trade account over the longer term, and to improving growth prospects in the economy as a whole. Policies that favor saving and investment over current consumption will provide funds for productivity improvement as well as free supplies of output to be marketed abroad. Much of that needed investment will have to be in

people. Most investment in education and training is done privately, by families and firms, while in our Federal system public education is primarily a State and local responsibility. The Commission recommends the expansion of an "investment-oriented" strategy toward education and training. Such a strategy would emphasize the private and public "payoffs" to increased human capital formation.

Several major goals which are advocated on their own merits, such as improved basic skills and problem-solving abilities for workers and managers, or more effective labor-management cooperation in order to implement technological change, have positive impacts on competitiveness as well. The Commission believes that the need for achieving these goals is more urgent because of international competition.

The Commission specifically rejects protectionism and bilateral trade restriction as both strategic and tactical options. A precondition for fair international competition is an effective international structure of rules agreed on by the competitors. In the post-World War II era, this structure is known as the General Agreement on Tariffs and Trade, or GATT for short. There have been several "rounds" of negotiations under the GATT, the most well-known being the "Kennedy round" of the 1960s and the "Tokyo round" of the 1970s. In the Fall of 1986 the "Uruguay round" was started, which is expected to take at least four years to complete. Among priority items for the United States are trade in services, treatment of foreign investment, and intellectual property rights. The Commission recommends that obtaining agreements on these and other issues through the GATT negotiation process should be a high priority for this and succeeding Administrations. This agenda is all the more sensible for the United States to pursue as it seeks international markets with a no-longer-overvalued currency.

Human Resource Development Policy and Competitiveness

The Commission believes that the amount of labor market adjustment presently generated by private markets and existing government programs is less than the amount needed to upgrade our human and physical capital to levels consistent with rising living standards while participating in international markets. A substantial amount of adjustment and mobility takes place in a dynamic economy as a matter of course. Adjustment in this sense means accepting a new pattern of pay or hours in a continuing job, while mobility implies movement to a new job across industry, occupational or geographic boundaries. Both technological change and internationalization are among the initiating factors in these changes, in ways that are often difficult to disentangle. Much of the burden of change, however, is borne by those least equipped to cope with it, workers with low levels of skills and educational attainments.

Federal leadership in human resource development has been provided in the past, most recently through the Job Training Partnership Act (JTPA), and should continue to be provided in the future. The Commission recommends funding be maintained for programs targeted on displaced and disadvantaged workers, aid to poorer school districts and assistance to minority and lower-income students wanting to pursue higher education. It also feels that there is a useful role for indirect "tax expenditure" provisions such as Section 127 of the Internal Revenue Code, which excludes employers's educational assistance spending (up to $5,250 per year) from workers' taxable incomes. Existing Federal programs, such as JTPA, the Targeted Jobs Tax Credit (TJTC) and Trade Adjustment Assistance (TAA), have provided assistance

to many workers. Governmental incentives and leadership are also vital in encouraging private employers and employees to make productivity-enhancing investments.

Regardless of their source of funding or sponsorship, effective programs for aiding displaced workers have the following characteristics in common:

- Workers, and the organizations which assist them, are given as much voluntary advance notice as possible of closures or mass layoffs.

- Job search assistance and other support are provided in the work setting before the actual layoff or closing.

- Active cooperation with unions, where present, is an integral part of this process.

- There is coordination of private and public displaced worker programs with programs providing unemployment insurance, job search, adult and vocational education and other assistance.

- Workers are offered a range of options, since people differ in their needs for immediate income, their desire or ability to take training, and their willingness to relocate.

- Prospects for recall or transfer are communicated realistically.

The Commission applauds the willingness of State and local governments to work with employers and employees to develop programs of retraining and upgrading that forestall the need for massive layoffs. Such programs also are more likely to be effective if the foregoing characteristics are present.

The most difficult human resources policy choice at the Federal level comes from the need to reconcile two goals often seen as competitive, but that are really complementary. The first is the need to reduce the Federal budget deficit for both domestic and international reasons, and the second is to expand Federal leadership in human resource development. The Commission believes that Federal programs especially have had and can have beneficial impacts on segments of the workforce, such as displaced workers or homemakers, minorities, or immigrants and refugees, who would otherwise have difficulty entering or reentering the economic mainstream. Aiding people to achieve their potential has a payoff in terms of enhanced productivity and competitiveness. The Commission also believes that Federal efforts are essential to complement the efforts of State and local governments, voluntary agencies and private employers. That is, effective private and non-Federal programs are more likely to grow in conjunction with Federal leadership, technical assistance and efforts at facilitating program growth, rather than as replacements for reduced Federal resources. In the longer term, our ability to respond to competitive challenges will be enhanced by investment in the human capital of our nation.

U.S. EMPLOYMENT IN AN INTERNATIONAL ECONOMY

NCEP STAFF REPORT

JUNE 1988

by

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Policy Analysts

National Commission for Employment Policy

PREFACE

Technicians using Japanese-made equipment record journalists standing in the park across from the White House, talking about the President's sanctions against Japanese electronic components. Top selling low-cost automobiles in the United States are made in Yugoslavia and South Korea, in part because of a "voluntary" agreement restricting Japanese car exports to this country. European Economic Community restrictions on U.S. poultry exports are countered by U.S. restrictions on pasta imports. Oil prices weaken along with OPEC's power, and the economies of Louisiana, Texas and Oklahoma are devastated. The prospect of greater political and economic freedom continues to bring people to the United States as it has for over 200 years, and a new immigration bill is enacted to help reduce some of the inflow.

Conflicts and contradictions are the norm in discussions of trade, immigration and international investment. Some see the future of the U.S. as the development of "hollow corporations" and erosion of manufacturing activity, while others see computers and high technology as revitalizing the economy. Can U.S. living standards be maintained and grow in an increasingly competitive world? Which policies are part of the solution and which are part of the problem?

This report outlines a labor market-oriented study of the effects of internationalization and provides background for NCEP recommendations on ways to enhance the ability of the U.S. economy to compete in world markets. Research for the report was largely completed by Spring of 1987 and the first draft of the report was completed by August 1987. The problems of the stock market, the "budget summit" and recent movements in the U.S. trade deficit reinforce the Commission's belief that this project has been a useful one to have undertaken.

Stephen E. Baldwin led the Commission staff assigned to this project and is the primary author of all chapters except Chapter III, which was written by Robert G. Ainsworth. Carol Junsenius Romero and Sara B. Toye played integral roles in the initial formulation and development of the project. They, other members of the Commission staff, and Commissioners provided comments and suggestions for which the authors are grateful. Special thanks are due to Dr. Charles F. Stone, a consultant who reviewed the entire report and policy statement, and whose suggestions are incorporated throughout.

EXECUTIVE SUMMARY

This staff report provides the basis for findings and recommendations made by the National Commission for Employment Policy, and analyzes from a labor market perspective the effects on the United States economy of increasing internationalization. The analysis focuses on three major dimensions: trade in goods and services, immigrants (legal and illegal) and refugees, and investment in physical and human capital. The report also complements the 1986 study, Computers in the Workplace: Selected Issues, which was the first part of the Commission's "Changes in the Workplace" project that the present report completes.

Chapter I of the report is an overview of the issues related to trade, immigration and investment as they affect the labor market. Chapter II focuses on the 1980-85 period of dollar appreciation and expanding trade deficits, and how this altered the industrial and occupational composition of employment. Chapter III reports the findings of several case studies of immigration in particular labor markets. Chapter IV explains the relation between the trade deficit and the inflow of foreign funds that has financed a major share of U. S. investment, and also relates this investment in people, research and physical assets to U. S. competitiveness. Chapter V outlines how policy roles and responsibilities are divided among the various parts of the economy, and presents the major conclusions of the study.

The Economy in the 1980s

The first half of the 1980s was characterized by an expansive U.S. fiscal policy combined with a restrictive monetary policy. This combination helped to wring the inflation of the 1970s out of the economy, at the cost of the deepest recession since the 1930s. The rise in the value of the dollar, related to high U.S. interest rates, made imports cheaper and exports more expensive to foreign customers. The resulting pattern of demand favored job growth in service and white collar jobs at the expense of jobs in the manufacturing sector. While overall job growth from 1983 to 1987 of over 10 million would have been about the same under a lower exchange rate, lower trade deficit scenario with the same monetary and fiscal policies, the industrial and occupational distribution of jobs would have differed.

It is difficult to determine the cause(s) of job losses or gains. Technological changes introduced in response to foreign competition, for instance, could be dubbed as leading to either technological or trade-related changes in the workforce. The real question is where can displaced workers and new entrants find new jobs? This should not be regarded as minimizing the distress of displaced workers, their families and the communities in which they live.

Trade can be viewed as part of the solution, instead of part of the problem, of economic realignment. Through increased trade, economies are able to achieve higher real incomes than they could have alone, and such higher incomes can support more and better jobs. The political and economic problems come in dealing with the unequal distribution of the benefits and costs of change. There are greater gains to be made from increased trade and higher rates of economic growth than can be achieved by aiming for overall or bilateral trade balances and their associated lower rates of economic growth. Productivity growth is key to achieving these greater gains.

Immigration and Investment

Research on immigrants and refugees for this project concentrated on empirical studies in specific local and regional labor markets. Factors such as time in the U.S., knowledge of English, previous educational attainment and the availability of family or ethnic group support clearly affect the rate at which new arrivals enter the U.S. economic mainstream. Immigrants (legal and illegal) and refugeees represent significant shares of the net growth in the U.S. workforce, with particular impacts on retail and service industries and on regions of greatest immigrant concentration. Immigrant status per se does not seem to be a barrier to economic integration.

An important characteristic of investment in the modern world is that it takes place across international boundaries, partly due to multinational firms' responses to currency variability, market barriers and other uncertainties. Similarly, investment in human capital is an international phenomenon, as firms and workers increasingly come to realize that their ability to cope with change and new situations is an important part of economic competitiveness. This ability is especially important in maximizing the effectiveness of advanced technology, such as computerized manufacturing and information systems.

Policy Dimensions of Internationalization

Internationalization is one of a number of interrelated factors, including technological change, deregulation, monetary and fiscal policy and external "shocks" such as the gyrations of the oil market, that have affected economies around the world. Among its particular impacts are gains from trade by consumers, both adverse and benefical effects on jobs of particular workers, and constraints on sustainable economic policy on the part of national governments.

Consumers gain from increased trade, through lower prices and increased choice of products and services. For workers and firms, however, the picture is mixed. Those areas in which the United States has an advantage, in professional, technical and innovative producer service activities, have grown, while jobs have tended to decline in sectors that are less dynamic and where lower wages abroad confer a price advantage to foreign production facilities, which may be owned by U.S. firms. Labor market adjustments to these new realities, however, are not uniquely determined by technological and market constraints, but are responsive to program and policy choices.

In order to remain competitive in terms of innovation and staying on the leading edge of technology, the country's human resource base must be improved, as part of intelligent economic growth. It is good growth policy to encourage capital formation, including human capital formation, that increases productivity, even in the absence of trade. Conversely, it is bad growth policy to encourage exports for the sake of exporting, or to restrict imports that fairly compete with our own products. Protectionist policies seek to freeze the old production arrangements in place and could only be sustained by devaluations and other actions that would lead to lower living standards in the United States.

A pro-competitive approach to the new realities of the international economic system would mean that more public and private resources would be allocated to education, that employers would demonstrate increased commitment to recurrent education and upgrading for their present and future workforces, and that Federal taxing and spending policies would favor saving and

investment over borrowing and consumption. Such policies are defensible even if we had no trade, because they would help the economy work more equitably and efficiently, but the international dimension raises the stakes and shortens the amount of lead time we have to respond.

CHAPTER I

PROBLEMS AND OPPORTUNITIES DUE TO INCREASED INTERNATIONALIZATION

The National Commission for Employment Policy is authorized by the Job Training Partnership Act to provide advice on employment and training issues to the President and Congress. It has for the past several years been evaluating "changes in the workplace," a generic term for forces that have been affecting firms and workers throughout the country. Major attention has been given to technological changes, worker displacement and the internationalization of the United States' economy. In 1986, the Commission issued a Policy Statement and Staff Report focused on the effects of computers, as a major example of technological change. (1)

The present report is the product of the second major project in the changes in the workplace sequence: "U.S. Employment in an International Economy." The project began with an informal seminar in December 1984, cosponsored by the Commission, the Department of Labor and the Office of the U.S. Trade Representative, and held at the Center for Strategic and International Studies in Washington, D.C.. The purpose of the seminar was to obtain guidance from a diverse group of knowledgeable business and labor representatives, academics, and government officials on appropriate areas for NCEP study.

In response to the seminar, Commission guidance, and advice from other interested parties, the project was designed to address two major questions:

- **What has been the effect of the internationalization of the economy on jobs and wages in the recent past, and what is the outlook for the rest of the century?**

- **How can public and private human resource polices aid in labor market adjustments required by the increasing internationalization of the economy?**

This report provides analysis and background information for the Commission's findings and recommendations on these questions. It is based on NCEP-funded research by contractors, staff research, and other analyses. (2) The remainder of this chapter is an overview of the issues relating to the trade, immigration and investment dimensions of internationalization. Chapter II looks in more detail at the labor market effects of the 1980-85 dollar appreciation — in essence, job growth was shifted from the export-oriented sectors of the economy to those service and retail trade sectors that are less open to import competition. Chapter III reports the findings of several case studies and literature reviews focusing on how immigrants and refugees have affected local area labor markets. Chapter IV explains how the trade deficit is related to the inflow of foreign capital that has made the U.S. greatly in debt to the rest of the world, and how a strategy of increased domestic investment in people, as well as in physical assets, research and development, is necessary to enhance U.S. competitiveness.

Chapter V discusses the division of policy roles and responsibilites among the various levels of government, employers, unions and individual workers. The final section of the chapter draws policy implications from the research.

TRADE BALANCE CONCEPTS

Both technical reports and the general media refer to the "trade deficit" as a measure of the nation's competitiveness. For reasons to be discussed later in this report, that association is not particularly valid, but it may be useful for the reader to be aware of the distinctions among trade balance concepts and the related deficits or surpluses. There are three major measures of net international transactions, given here in order of increasing comprehensiveness. The merchandise trade balance equals exports of goods produced in the U.S. minus imports of goods produced elsewhere. The balance on goods and services adds the net flows of investment income, military transactions, travel and transportation receipts, and other services such as insurance. The balance on current account adds to this the net amount of unilateral transfers, such as pensions, remittances and charitable contributions.

During 1975-82, the U.S. goods and services balance was in slight surplus, because investment income, royalties and earnings from services other than travel and transport more than offset the net deficit on merchandise trade. The unprecedented growth in the deficits in all three measures since 1982 is primarily due to an acceleration in the rate of merchandise imports, while merchandise exports remained below 1981 levels until mid-1987. These large deficits on the merchandise account have been paralleled by a large net inflow of investment funds into the U.S. from abroad.

Dimensions of Internationalization

The United States has become increasingly involved with the other economies of the world in a number of ways. Three major international linkages will be stressed in this report: trade in goods and services; refugees and immigrants (legal and illegal); and investment in physical and human capital. The remainder of this section will discuss how these linkages affect the changes that have occurred in labor and product markets.

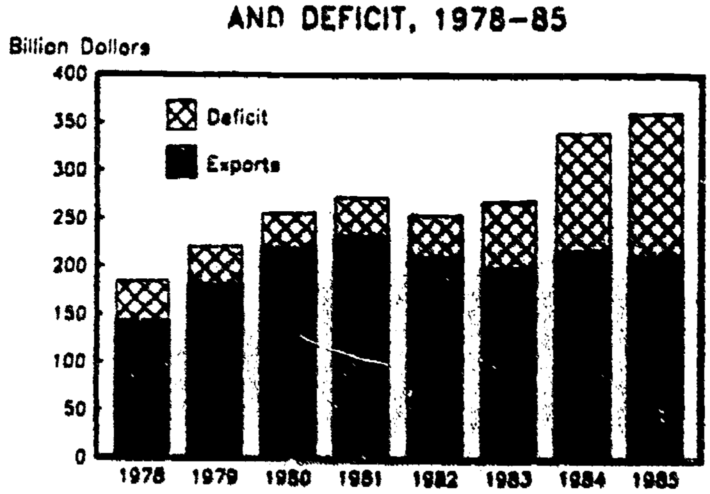
Trade in Goods and Services

The various elements of U. S. international trade accounts are smaller in relation to overall economic activity, in terms of percentage of Gross National Product(GNP), than for any other industrialized country. This is in part due to the United States' economy being larger than any other member of the Organization for Economic Development and Cooperation (OECD), the association of the world's major market economies. Because the U.S. GNP is large relative to world GNP, U.S. exports represented about 10 percent of world exports in 1985, while U.S. imports were about 15 percent of 1985 world imports. Our trade activities, therefore, have a substantial effect on the economies of other countries, as well as involving a substantial number of jobs in the U.S.. (3)

Chart 1 shows U.S. exports and imports from 1978 to 1985. The growing trade deficit can been seen as a combination of stagnant export levels and surging import levels. In effect, the United States in recent years has consumed more goods and services from abroad than it has sold on world markets. There has been a particularly great deterioration in manufactured goods, with the dollar value of imported goods equal to about 35 percent of the dollar value of domestic goods production in 1985, a new high.

CHART 1

U.S. MERCHANDISE EXPORTS, IMPORTS AND DEFICIT, 1978-85



Source: United States Trade: Performance in 1985 and Outlook, Figure 2.2, p. 10.

U.S. consumers have benefitted, on the whole, from the lower prices and increased availability of imported goods brought about by increased trade. In addition to these "microeconomic" gains from trade, there was a "macroeconomic" benefit in that import competition helped reduce inflation. Also on the macroeconomic side, the U.S. import surge from 1983-85 was a major "engine of growth" for foreign economies, whose exports to the U.S. represented a significant share of their demand growth in recent years. A continuing U.S. trade deficit financed by inflows of foreign capital cannot go on indefinitely, however, and policies needed to restore balance in our trade relations will not be painfree, as has been evidenced by developments in late 1987 and early 1988. These developments include the possibility of an impetus to inflation from higher import prices as the dollar depreciates against the currencies of major trading partners, the risk that higher interest rates could adversely affect economic expansion, and (on the positive side) an increased realization of the need to increase productivity, savings and investment in order to reduce the debts acquired during the consumption surge of the mid-1980s.

There is also an increased realization of the linkages between trade and jobs, but less attention seems to have been paid to the job-generating potential of exports than to employment losses blamed on imports. Estimates of the effects of exports on jobs begin with assumptions about sectoral stability and the rate of growth of GNP. If GNP grows at some assumed rate, and output by industry grows proportionately, employment by industry will grow depending on each industry's output/employment ratio. That is, for a given amount of output growth, different industries require different amounts of additional labor. According to one recent study, a billion dollars worth of exports, distributed across exporting industries, generates about 25,000 jobs in the U.S. economy. Of those 25,000 jobs, approximately 10,000 are with the firms that make the products and 2,500 are with the firms that move the products from the factories to the point of export, while the remaining 12,500 are with the firms that provide intermediate inputs and the capital goods necessary to make the products. (4)

It is important to keep in mind that job growth for the nation as a whole depends on growth in GNP that is consistent with the monetary and fiscal policies employed by the Federal government. For a given set of macroeconomic policies, different trade scenarios yield a different composition of employment, but the total number of jobs in the economy varies negligibly.

This point means that it is not true that an estimate of, say, 3 million jobs "lost" due to increased imports means that unemployment is 3 million persons higher, just as an export-based job increase will not lower unemployment without appropriate changes in monetary and fiscal policy. As explained by former Council of Economic Advisers Chairman Herbert Stein, "When the U.S. imports $100 billion more of goods and services than it exports, the rest of the world earns $100 billion that, in one way or another, it invests in the U.S. This investment creates jobs in the U. S. It finances home building and business investment and defense expenditures and consumption that could not go on without it." (5)

One study for this project analyzed alternative developments in trade under unchanged macroeconomic policies. The researchers concluded that if the current account deficit had not grown as it did in 1982-85, but had remained at its near zero 1979 level, total employment growth would have been about the same. However, the redistribution of demand growth under this alternative scenario means that there would have been more blue collar

manufacturing jobs and fewer white collar jobs in retail trade and services than was actually the case, according to the study's authors, Charles F. Stone and Isabel V. Sawhill. (6)

Stone and Sawhill are careful to describe their results as indicative rather than definite predictions. Their view is that the U.S. remains fundamentally competitive, but that trade performance in the first half of the 1980s was adversely affected by dollar appreciation, related to the combination of restrictive monetary policy and expansionary fiscal policy pursued by the Reagan Administration. (see Chapter II for further discussion) In terms of overall employment, they conclude, the pattern of demand that actually existed generated about the same number of jobs, but with a different industry mix, than would have been generated with a trade deficit close to zero.

The general economic stimuli pointed out by Stein, as well as the gains from participation in trade, such as lower inflation and a greater range of available goods, are diffused across the economy. Worker displacement, however, is concentrated in particular localities and industries and thus more noted where it occurs. The political effect of this dichotomy between the gainers and losers from increased trade is to have a generalized and often lukewarm support of "free trade" whereas there develops a very intense constituency for helping those injured by import competition.

Workers, managers and stockholders in firms adversely affected by imports may seek protection because their interests as producers are being injured. Those who derive income from other sectors of the economy would be better off without protection for the import-affected sectors, both as consumers facing lower prices and as taxpayers, to the extent that protected industries bear a lower tax burden that must be partly assumed by others. Protectionist policies such as quotas, "voluntary" export restraints and tariffs are often advanced as "remedies" to the injury suffered by producers. The general policy problem is that unless the problems of the injured are addressed directly and correctly, they may have the political power to thwart the realization of the gains from increased trade, even though these gains to exporters, consumers and taxpayers are greater than the income losses suffered by import-affected firms and workers.

Immigration

It is a cliche' to refer to the United States as a "nation of immigrants," but cliche's tend to be founded on truth. A major difference between earlier periods of significant migration and the present period is today's smaller share of legal migrants compared to undocumented migrants and refugees. In part this is due to economic and political turmoil in different parts of the world, notably Latin America and Southeast Asia. In part, too, these flows of people to the U.S. are in response to "demand-pull" factors which make this country a more economically attractive destination compared to other nations, given that the individuals have left or made the decision to leave their own countries.

Two Commission-sponsored case studies, one of Atlanta and one of New York City, looked at the ways in which immigrants (legal and illegal) and refugees have affected these metropolitan areas. They find little evidence of "displacement" of native-born workers by more recent arrivals. Jobs have been created not only by entrepreneurial activity and immigrants' investment, but also by the provision of assistance to the entrants by public and private

agencies. Jobs in such agencies, especially public agencies, are held primarily by U.S. citizens. A Commission staff review of the literature on illegal immigrants and refugees comes to much the same conclusion. (See Chapter III for further discussion.)

The degree of immigrants' assimilation into the mainstream labor market varies, of course, by region as well as by legal status, ethnic group, English language facility and educational level. A 1982 Commission report on Hispanics in the labor market identified lack of mastery of English (spoken and written) as the major barrier to economic advancement. (7)

The Immigration Reform and Control Act of 1986 will affect different groups of immigrants (or potential immigrants) in different ways. These will be discussed in more detail in Chapter III. It should be noted that although the major objective of the act was to address problems related to illegal immigration, both refugee and legal migrant groups could experience reduced demand from employers anxious about sanctions. On the other hand, there could well be benefits to legal residents from the reduced competition for jobs related to lower rates of illegal immigration.

It is well known that trade and immigration are (imperfect) substitutes. Trade protection is especially important to relatively low-wage U.S. industries, such as apparel and footwear, precisely the sectors in which developing countries are the most competitive. As Professor Sidney Weintraub puts it, "U.S. policies on trade and migration thus work at cross purposes. Migration policy aims at curtailing the inflow of people and trade policy, by import restrictions on products these people could produce at home, encourages the inflow of people." (8) That is, U.S. production of relatively "low tech" products is aided by tariffs, import quotas and "orderly marketing agreements" that restrict imports. There would be more employment in countries producing these goods if U. S. trade barriers were lower and more could be exported to the U.S. Without jobs, there is increased pressure to emigrate (legally or illegally) to the United States. It is often argued, however, that the only way that many U.S. firms can survive is to pay low wages that are attractive only to recent immigrants with limited options and few skills. This creates incentives for both employers and workers to violate U.S. immigration and labor standards laws.

Investment

Economists use the term investment to mean additions to productive capacity, including physical equipment and structures, as well as "human capital," which is formed by education, training and other activities that enhance worker productivity. (Labor mobility is another kind of investment in human capital, exemplified by worker migration to the U.S.) International investment statistics concentrate on flows of funds across borders, providing information on financial or portfolio holdings as well as direct additions to physical capital, but they do not provide data on human capital investment. Such human capital investment data as exist tend to be based on measures of educational attainment.

Studies of international differences in productivity growth have found differences in educational attainment to be a major explanatory factor. An important part of education's "payoff" to individuals and their countries is that educated people are better able to adapt to new information and changed conditions. (9)

Much of the policy debate regarding international investment (and even more of the media attention) has been focused on "runaway plants" (when U.S. firms move facilities abroad) or "economic development" (when foreign firms establish facilities in the U.S.). These shifts in the sourcing patterns of multinational enterprises may or may not involve increases in productive capacity. If a firm buys another firm's existing plant for cash, there has been no increase in physical capital. However, investment in human capital takes place when newly-hired or retained workers are trained in a new way of operating.

Even if there has been an increment in private productive capacity, such as a new plant built on a "green field" site, such investment cannot take place in a vacuum. Terms such as "infrastructure" or "social overhead capital" are used for social investment in the roads, gas and sewer lines, electricity and telephone grids, etc., needed for the functioning of a modern economy. Firms relocating across state or national boundaries are often able to get governments competing to provide such infrastructure as an inducement to locate in a specific place. Of at least equal importance to firms, in many cases, is the availability (and quality) of the human capital that operates the system. It is this linkage of the need for education and training with the overall capacity of a nation's economic system that is a major theme of this report.

ENDNOTES

1. Computers in the Workplace: Selected Issues, Report No. 19 (Washington, D.C.: National Commission for Employment Policy, March 1986).

2. For an earlier study of these issues by the Commission, under its original name, see Trade and Employment: A Conference Report, Special Report No. 30 (Washington, D.C.: National Commission for Manpower Policy, November 1978).

3. For data and analysis of U.S. trade see United States Trade: Performance in 1985 and Outlook, (Washington, D.C.: U.S. Department of Commerce, October 1986).

4. Lester A. Davis, "Contribution of Exports to U.S. Employment," in United States Trade: Performance in 1985 and Outlook, pp. 92-94. Also see U.S. Trade-Related Employment: 1978-84, USTIC Publication 1855 (Washington, D.C.: U.S. International Trade Commission, May 1986).

5. Herbert Stein, "Best-Selling Fiction: 3 Million Lost Jobs," Wall Street Journal, July 29, 1985.

6. Charles F. Stone and Isabel V. Sawhill, "Labor Market Implications of the Growing Internationalization of the U.S. Economy," NCEP Research Report 86-20 (Washington, D.C.: National Commission for Employment Policy, June 1986).

7. Hispanics and Jobs: Barriers to Progress, National Commission for Employment Policy, Report No. 14 (Washington, D.C.: Government Printing Office, September 1982).

8. Sidney Weintraub, "U.S. Foreign Economic Policy and Illegal Immigration," Population Research and Policy Review, Vol. 2, 1983, pp. 211-231.

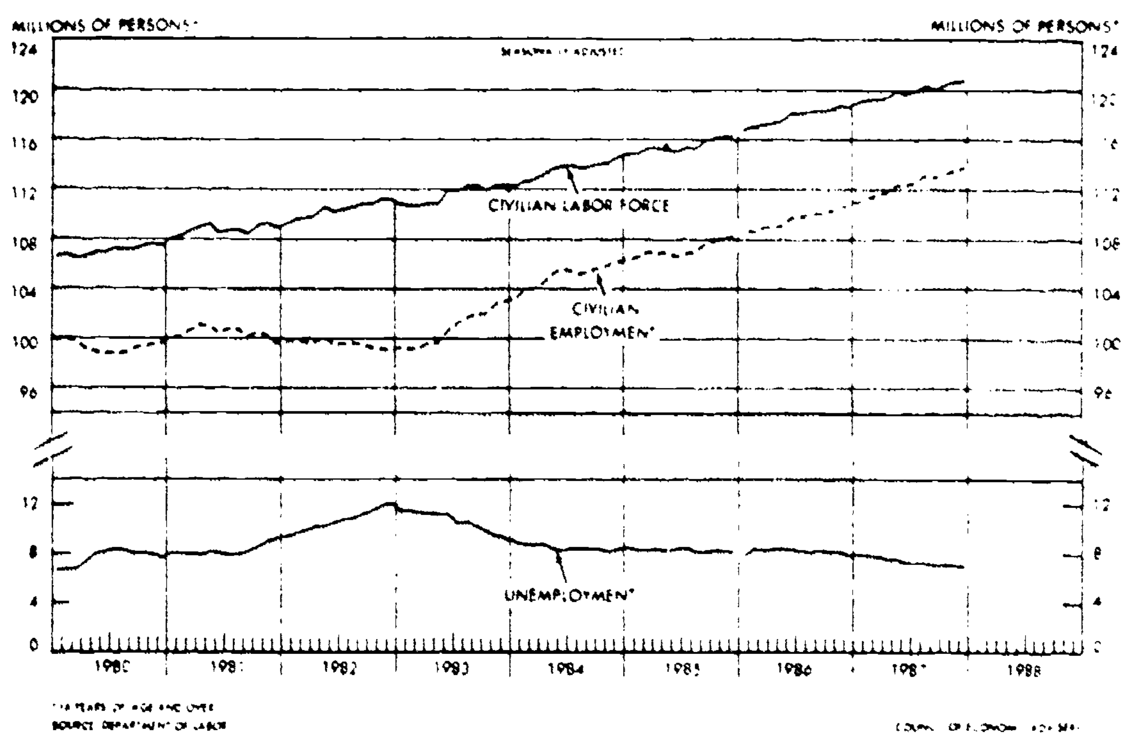
9. Edward Denison, Why Growth Rates Differ, The Brookings Institution. 1967.

CHAPTER II

LABOR MARKET EFFECTS OF INCREASED TRADE

United States macroeconomic policy during the first half of the 1980s featured a combination of an expansive fiscal policy and a restrictive monetary policy. The later was initiated by the Federal Reserve Board in 1979, resulting in real interest rates that were high by post-World War II standards. This combination helped to wring the inflation of the 1970s out of the economy at the cost of two recessions, the second the deepest since the 1930s. The plunge in economic activity that resulted in a civilian unemployment rate of nearly 11 percent in December 1982 was followed by a proportionately rapid upswing during 1983 and 1984. Between 1985 and the end of 1987, the civilian unemployment rate moved from somewhat above 7 percent to just below 6 percent. As can be seen in Chart 2, from mid-1984 to December 1987, the civilian labor force grew by about 7 million, civilian employment rose by about 8.5 million, and civilian unemployment declined by about 1.5 million.

CHART 2
STATUS OF THE CIVILIAN LABOR FORCE



Source: Economic Indicators, January 1988, p. 11.

On the monetary side, high U.S. interest rates during the early 1980s in combination with economic stagnation and/or political unrest in a number of other countries attracted enough foreign funds to produce a substantial net capital inflow into the United States. This international capital mobility put upward pressure on the price of the dollar in foreign exchange markets. The rise in the value of the dollar during 1982-85 made imports cheaper, both directly and indirectly slowing inflation. The direct effect is represented by sales of imports at lower prices, to the extent that firms pass on to consumers the cost reductions of the now cheaper imports. The indirect effect of lower import prices is the downward pressure this keeps on the prices of domestic competitors. Sales of import-competing U.S. firms and of U.S. exporters to foreign markets were adversely affected by the higher dollar. U.S. exports in dollar terms have been stagnant over the past several years, while imports in dollar terms have continued to rise steadily. (In 1982, imports and exports of total goods and services on current account were equal, at $350 billion. In 1985, exports were $360 billion, while imports were $463 billion. The result was an expanded current account deficit that was the mirror image of the net capital inflow.(1))

While jobs in export industries and industries competing with imports have been "lost", the overall number of jobs in the economy increased by over 10 million from 1983 to 1987. According to Charles Stone and Isabel Sawhill, employment growth is about the same as it would have been under a lower trade deficit scenario, given the same combination of monetary and fiscal policy. That is, the impact of internationalization has largely been one of redistribution of employment. Their findings are worth quoting at length.

> "Although changing trade patterns probably had little effect on the total number of jobs generated in the economy between 1972 and 1984, they did affect where jobs were generated. Without the fall in the exchange rate and increase in the trade surplus that took place between 1972 and 1979, there would have been 371,000 fewer jobs in agriculture in 1979, 221,000 fewer jobs in manufacturing, and 592,000 more jobs in the rest of the economy, most of them in services. Without the rise in the exchange rate and the trade deficit between 1979 and 1984, there would have been 116,000 more jobs in agriculture, 1.7 million more jobs in manufacturing, and 1.8 million fewer jobs in the rest of the economy, with most of the reducti c curring in services. Thus, trade slowed any long run tr d toward greater growth in the services sectors between 1972 and 1979 but accelerated that trend between 1979 and 1984.
>
> "The list of declining industries in which trade was an important contributing factor was quite short for the 1972-79 period, comprising only apparel and leather products. It was much longer for the 1979-84 period. In some industries, including steel, food products, and many machinery industries, trade was important, but other factors contributed as well. In other industries, including automobiles and textiles and apparel, the decline could be attributed entirely to trade since the contribution of all other factors was positive. Even in the 1979-84 period, some industries, most notably electronic equipment and accessories, showed strong employment gains despite heavy losses due to trade.

"The impact of changing trade patterns on occupations and demographic groups accords with our common sense view of what has happened in recent years. By stimulating employment in services and discouraging it in farming and manufacturing, trade has stimulated white collar and service employment at the expense of blue collar and rural employment. Furthermore, the kinds of jobs and industries whose employment has been stimulated typically employ a higher proportion of women and younger workers than the industries in which job growth has been discouraged. The only somewhat surprising result is that nonwhites have not shared in the gains achieved by women and teenagers. In general, however, the net impact of trade on any group has been quite small, (typically less than 1 percent of that group's total employment.)" (2)

These findings are consistent with Commerce Department and International Trade Commssion studies cited in Chapter I. Basically, the effect of the early 1980s dollar appreciation was to shift job growth from the "traded sector" of the economy, that is, those goods and services subject to international competition, to the "non-traded sector." Major components of the latter segment of the economy include restaurants, personal service establishments, local business services, education and public administration. In addition to the effects of the exchange rate cycle, the structure of the labor market has been affected by the problems of particular industries. It should be noted that structural factors, such as adopting or delaying new techology, can have implications for imports and exports in particular industries. Without macroeconomic imbalances that encourage international capital flows, however, total imports and exports will tend to fluctuate together. This means that exhange rates would vary rather than the nation having a growing trade deficit. The trade deficit can grow only because foreigners are willing to accept U.S. "IOU's" for some part of the goods and services they sell us.

The analysis of structural changes in particular industries is based on a study of industries adversely affected by dollar appreciation during the early 1980s, that estimated whether industry shares in the world market were likely to be regained when the dollar depreciated against other currencies. This study was conducted by Economic Consulting Services, Inc. (ECS), who selected for examination a set of industries judged particularly hurt by the rise of the dollar. (3)

The industries analyzed by ECS were: corn and wheat, textiles and apparel, steel, non-electrical machinery, computers and electronic components, and electronic communication equipment. These industries clearly differ in the longevity of their problems, reliance on exports as a source of sales, and long-term prospects. The role of trade restrictions also varies by industry and country. The ECS researchers concluded that exchange rate fluctuations have had and will have their largest impacts on U.S. trade with Western Europe, in part because structural barriers to trade are less important for this region. The Latin American debt crisis, curtailing imports from the U.S. that had been largely financed by loans, has overwhelmed the other factors affecting U.S./ Latin American trade. The technological and industrial development of Japan and the newly-industrializing East Asian countries, plus the labor cost advantages of the latter, have had more to do with U.S. trade patterns than has the cyclical

effect of exchange rate movements.

Another major finding of the ECS study is that changes in the location of production facilities, in part due to the dollar's appreciation, have long-term implications for the pattern of domestic employment, even if sales rebound. Having invested in plant, equipment and physical and human infrastructure, firms are less likely to switch that production back to the U.S. based on relative price swings whose duration and magnitude are uncertain. (4) On the positive side, however, such considerations are instrumental in the strategies of foreign firms that set up plants in the United States.

Implementation and development of new technologies can augment the effects of changing terms of trade for a particular industry. A case study of a single "high tech" industry known as "machine vision" yielded several findings that bear on this interaction. One is that displacement of workers can occur in a different industry than the one in which technological change is generated. Specifically, the introduction of machine vision (giving robots the ability to see and adjust to their surroundings) has meant fewer semi-skilled jobs in auto production. A second finding is that the most standardized products in an industry s output mix, for which direct labor costs are most crucial for competitiveness, are most in danger of being switched to foreign plants, whether owned by U.S. or foreign firms. A third finding is that new technology has the potential to moderate, if not reverse, such shifts in production, if it can sufficiently reduce domestic production costs compared to less-developed countries in which implementing the new technology would be more costly. Fewer workers would still be needed than under the old technology, but production would not be completely transferred abroad, so that industry employment could be partially maintained. (5)

Trade and Worker Displacement

It is impossible to determine from surveys the "cause" of each displacement, mass layoff or plant closing. Indeed, it is conceptually difficult to assign causation even if one knew the specifics of each situation. If a firm introduces computerized manufacturing systems in response to foreign competition, for instance, are assembly line workers displaced due to "trade" or "technological change?" The estimates quoted above of jobs "lost" due to imports or reduced exports reflect the average number of workers needed to produce former vs. current levels of output.

Estimates of the worker displacement problem and potential policy responses have received continuing attention from the NCEP, as well as from other agencies. (6) Recent surveys by the Bureau of Labor Statistics (1984, 1986) have allowed estimation of the number of workers losing jobs nationwide due to plant closings or permanent layoffs. Using the BLS definition of displacement, which requires a tenure on the former job of at least three years, about 1 million people per year can be characterized as displaced. (7) This is approximately 5 percent of the 20 million or so persons who experience some unemployment during the course of a year.

Estimating the number of displaced workers is not the same as estimating the number of jobs that no longer exist. Direct unemployment can often be avoided through attrition or provision of incentives for early retirement, as well as the movement of workers to other jobs within the firm. In one study of unemployed workers in three States, most had returned to their original employer within two to three years. (8) The workers ultimately displaced as

older industries shrink are members of the new generation who will have fewer opportunities in the affected firms than did their parents or older siblings. They will need to seek new opportunities in the expanding sectors of the economy. This in no way should be interpreted as minimizing the distress and difficulties surrounding displacement and remployment that have been experienced by displaced workers. There are very real human problems, not limited to jobs, that need to be addressed in compassionate and innovative ways if our economy is to obtain the full benefits of its dynamism.

Secretary of Labor William E. Brock appointed a Task Force on Economic Adjustment and Worker Dislocation in December 1985. The Commission was pleased to be able to assist the Task Force in preparing its report, which was delivered to Secretary Brock in January 1987. The Task Force concluded, "In summary, responses to worker dislocation from both government and the private sector have been spotty and narrowly focused, and the United States lacks a comprehensive, coordinated strategy to deal with the problem." (9) The Task Force proposed guidelines for improving the quality and timeliness of private sector response to layoffs and plant closing. They also proposed an expanded Federal program, replacing Title III of JTPA, run by State governors and offering a menu of assessment, assistance and placement services that would be coordinated with Unemployment Insurance, Trade Adjustment Assistance and the State Employment Services.

During the late 1950s and early 1960s, considerable concern was expressed about the displacement potential of automation. While some of this evaporated because the potential had been overstated, the real reason why displacement ceased to be a high priority issue until recently is that the economy expanded so that displaced workers had alternative job opportunities. In the context of an expanding U. S. and world economy, both trade and technological change are part of the solution, rather than the source of the problem. Fearing trade and technological change rests largely on the idea of a "zero-sum" world economy. (A "zero-sum" game is one in which the gains of the winners are equal to the losses of the losers.) In the short run, a single firm or industry may be correct in viewing its gains as its competitors' losses, but in the longer run, expanding markets provide "positive-sum" solutions in which everyone is potentially better off.

Realizing these potential gains is not automatic. The concern over the "declining middle" of the job distribution is an expression of the fear that if traditionally high wage jobs disappear, they will be replaced by poorer jobs. However, it is the human capital embodied in the worker that is the primary determinant of his or her productivity and earnings. Appropriate human resource investment policies are needed for industries and firms to stay competitive at wage levels consistent with maintaining U.S. living standards. (10)

An economy, basically, is the organizational structure in which people try to satisfy their material wants. Technology is how the economy transforms its resources of labor, capital and natural endowments into the goods and services that satisfy peoples' wants. Trade among economies is part of technology, because trade is one way in which resources can be transformed into goods and services on more favorable terms. All of the economies participating in the trading system can be better off by adopting this particular technology of trade. However, to make the case for trade in the abstract is only the beginning. Nations have their own internal political and institutional dynamics which may run counter to policies promoting balanced growth in trade. For example, the U.S., Japan and the European Economic Community each protects its own agricultural sector via

different combinations of subsidies, quotas, tariffs and other restrictive practices, in large part because farmers are an important voting group and agri-business an important source of political funds. Consequently, among other distortions, Japanese consumers pay substantially more than the world price for rice, while U.S. consumers pay well above the world price for sugar.

Prospects for the Remainder of the 1980s

As part of their work on changing employment patterns, Stone and Sawhill developed four different macroeconomic scenarios for 1990 to illustrate how job growth varied under different plausible sets of policies. The first scenario assumed continued steady growth, but no reduction of the budget and trade deficits and continued high real interest rates and a strong dollar. The second scenario was the most optimistic, because it combined strong demand with dollar depreciation that reduced the U.S. trade deficit and a reduced federal budget deficit. The third scenario combined the improved trade balance and depreciating dollar with a somewhat weaker rate of demand growth and consequent higher unemployment. The fourth scenario was the least optimistic, assuming weaker economic growth plus the imposition of import restraints, leading to renewed dollar appreciation and reduced exports as well. Table 2.1 (Table 9 in Stone and Sawhill) provides industry employment growth projections for each scenario, and the differences between scenarios II, III and IV and scenario I (continuation of present trends).

Table 2.1

Employment Growth by Industry, 1984-1990
(thousands of jobs)

	Scenarios				Difference between Scenarios[1]		
	I	II	III	IV	I-II	I-III	I-IV
Agric. forestry, fisheries	-173	-113	-176	-188	-60	3	15
Mining	-55	-23	-45	-50	-32	-10	-5
Construction	1,099	1,178	529	534	-79	570	565
Manufacturing	91	505	-165	-264	-414	256	355
Transport., communic., utilit.	-33	-33	-126	-118	0	93	85
Wholesale and retail trade	751	667	129	237	84	622	514
Finance, insur.,& real estate	1,176	1,110	999	1,061	66	177	115
Services	5,734	5,316	4,959	5,240	418	775	494
Government enterprises	450	437	401	416	13	49	34
	9,040	9,043	6.505	6,866	-4	2,535	2,172

1. Difference in 1990 employment between the first scenario (strong growth, continued large trade deficit) and each of the other scenarios.

Projections for 1984-90 were made for Gross National Product components and for employment by demographic group, industry and region. The stronger growth scenarios (I and II) have projected employment growth of just over 9 million jobs, while the weaker growth scenarios (III and IV) show a projected job growth of 6.5 and 6.9 million respectively. Comparing the most favorable scenario (II) with the first, baseline projection, a reduction in the budget deficit, dollar depreciation and an improved trade balance would be associated with a net swing of about 600 thousand jobs from the service producing to the goods producing industries, with total growth in jobs about the same. There are similar, but smaller industrial swings between scenarios III and IV, but the lower economic growth assumption dominates the results of any comparison between either of the first two scenarios and either of the last two.

Projections using occupational breakdowns (not shown here) are consistent with those in Table 2.1. Reducing the trade and budget deficits yielded a net swing in jobs of about 350 thousand favoring blue collar workers compared to white collar workers. These results are consistent with the earlier discussion of the distributional impact of trade on employment. They also emphasize the earlier point that there are greater gains to be made for all via increased trade and economic growth than a single sector could anticipate in a zero-sum situation.

Protectionism and Earnings

Economists advocate competitive markets in general, and free trade in particular, in large part because the real incomes of societies are raised thereby. Part of the price paid for the dynamism and growth potential of competition is the possibility of displacement from less-competitive enterprises. John Hicks, writing during the depths of the Great Depression, explained why workers and firms seek protection as follows: "Free competition is likely to prove intolerable, not because it fails to raise the real income of labour—decidedly it does not so fail—but because it raises expectations of security which it cannot fulfil. It must be remembered, however, that it is not the insecurity which is the product of industrialism; it is the expectation of security." (11)

When that expectation of security is disabused, workers and firms may turn to the state for aid. Protection via increased tariffs, import limits or other barriers to competition may be sought by producers (firms, workers and the representatives of both). The counterinterest of consumers and taxpayers is often less well represented. The cost of protection to the latter groups may be minimal on an individual basis, or concealed via changes in the mix of products available on the market. An example is refined sugar. If U.S. quotas help keep the domestic sugar price above the world price by 50 percent, the direct cost to consumers might be two or three dollars a year, while the effect on prices of sugar-using products would be difficult to identify. The difference to the employment ard profits of the sugar industry is obvious.

The interests of import-competing firms and their workers may be defended most vigorously in those industries in which U.S. firms had long enjoyed well entrenched market power, e.g., steel, autos. Over the 1970's, during which the competitiveness of the auto and steel industries eroded, the average wages of autoworkers and steelworkers rose, relative to the U.S. manufacturing average.(12) However, other industries, such as apparel and shoes, which are among the lowest-paid, also were adversely affected by

imports. One kind of response is to impose quantitative restrictions on imports, such as the MultiFibre Agreement (MFA), or the Voluntary Export Restraint (VER) agreement between the U.S. and Japan on automobile imports. The VER agreement enabled the Japanese to concentrate on the highest margin, up-market models, opening opportunities for Korean and Yugoslavian producers. Sometimes these restraints are opposed by industries whose prospects depend on trade, such as exporters of raw materials, commercial aircraft manufacturers, or port authorities, whose facilities handle exports as well as imports.

U.S. employment growth has been concentrated in service-producing industries, which pay lower average wages than do goods- producing industries. (Obviously, there is considerable overlap in the wage distributions of the two sectors.) During the 1970s and into the 1980s, the U.S. economy had to cope with unprecedented labor force growth. The number of jobs grew to more or less accommodate this growth, but the growth in earnings was moderated as the jobs increased more rapidly in the less capital-intensive, lower-paying sectors. Moreover, firms, in efforts to improve or maintain competitiveness, have powerful incentives to moderate or even reverse the rate of earnings growth independent of demographic considerations. (One tactic used in a variety of industries in the early to mid-1980s is a "two-tier" wage structure in which new employees start at wage rates below the previous starting wage level and take some time before attaining the old wage path. Such structures are losing favor and being dismantled as labor markets have tightened in recent years.) Equipment and skilled labor tend to be complementary in production, so that employment growth in industries with low capital/labor ratios, such as retail trade, tends to be cheaper for both investment and wage cost reasons.

As mentioned in Chapter I, there is also the tension between policies that tend to reduce imports and increase immigration and those that do the reverse. Textiles, apparel and footwear are the best examples of protected industries that use low-wage labor. Such industries act as employers of many immigrants who might otherwise be employed in foreign plants producing for the United States market. As Professor Sidney Weintraub has put it, " I do think you must ask what the employment needs of U.S. manufacturing and service industries would be if the United States allowed its dynamic comparative advantage to function rather than to protect the inefficient. What kinds of workers would be needed and could many of these positions be supplied by unskilled immigrants? Undocumented immigration takes place in part because of the demand; what would the result be if the United States shifted away from old-line to more modern industries which rely heavily on innovation, research and human skills?" (letter to R. Ainsworth, December 6, 1985). The implication of Professor Weintraub's question is that in the absence of protectionism, the industrial structure and the associated earnings structure of the United States would be weighted more heavily toward higher-paying, higher-skill jobs than is the case at present.

The Link between Competitiveness and Income Growth

A nation's real income (money income adjusted for inflation) can grow over a period of time only if productivity increases are greater than the growth in population or labor supply. This rising real standard of living can be augmented or diminished according to whether the nation is internationally competitive. In fact, observing if the national real income rises over the long term as the nation participates in international markets is the best measure of its competitiveness. Short term measures of performance on the various trade accounts are less satisfactory indicators of

competitiveness, and are best used in combination to get a picture of the various dimensions of how trade affects an economy.

Given the ability of exchange rates to adjust to trade imbalances, there is some rate of exchange at which a country can be "competitive" in the sense that its current account deficit is negligible. That rate may imply, however, a stagnating or deteriorating standard of living, as has happened in some less-developed countries trying to bring their trade deficits under control. It is also important to distinguish between the international competitiveness of the nation and that of individual industries. Mature industries with transferrable standardized technologies may become less competitive in high-wage countries, because they can be undercut by countries in which labor costs are lower. The gains from trade are greatest when the countries involved take advantage of their strengths. For the United States, these strengths are the goods and services that most effectively use the skills and technical knowledge possessed by U.S. workers. It is good growth policy to encourage capital formation, including human capital formation, even in the absence of trade. Conversely, it is bad growth policy to encourage exports for the sake of exporting, or to restrict imports competing with our own products.

In order for a strategy of improving our physical and human capital to be realistic for the United States, not only should the economic environment favor innovation and application of technological changes, but the labor supply must match the demands of the kinds of jobs that will be created. Because jobs and production processes will be changing, adaptability and knowing how to learn will be key to working effectively. Changes will not be confined to "high tech" sectors, nor will all new jobs be high skill. However, the prospects for economy-wide productivity growth, and thus real income growth in an international economy, clearly depend on the size and vigor of the leading sectors.

ENDNOTES

1. United States Trade: Performance in 1985 and Outlook, Table 40. From mid-1985 to mid-1987, nominal interest rates have fallen back into the range experienced in the mid-1960s to mid-1970s, while real rates are still historically rather high; the dollar exchange rate has dropped sharply against the Japanese yen and less so against other major currencies.

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3. Economic Consulting Services, Inc. "A Study of the Effects of Exchange Rate Fluctuations on the Sales and Employment Prospects of Selected U.S. Industries. Report to the National Commission for Employment Policy, 1987.

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7. Paul O. Flaim and Ellen Sehgal, "Displaced workers of 1979-83: how well have they fared?" Monthly Labor Review, June 1985, pp. 3-16. For recent data on experiencing unemployment, see BLS News Release 87-335, August 11, 1987.

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CHAPTER III.

IMMIGRATION

In 1886, the year the Statue of Liberty was dedicated, ninety percent of those who entered the country were of European origin. Now, only five percent of legal entrants come from Europe, while forty percent come from Latin America and nearly half come from Asia. The groups from Asia and Latin America, and even more so the undocumented aliens who are predominately from the latter region, are disproportionately unskilled or semi-skilled. Low-skill jobs are declining in number and importance in the U.S. economy, according to the Bureau of Labor Statistics. However, according to NCEP-sponsored research to be discussed in this chapter, immigrants and refugees are also more likely than the native-born to be self-employed, workers in family enterprises, or workers in small firms owned by people from their country of origin. To some extent, there has been an infusion of entrepreneurial activity, often accompanied by the investment of immigrants' capital, traceable to the arrival of such individuals, which may help explain the often-observed dynamism of the small firm sector of the U.S economy.

The American consumer market has expanded as a result of recent immigration. The seven to nine million immigrants who have arrived since 1970 represent a fifth or more of population growth in the 1970s and 1980s, and thus account for a substantial share of the incremental demand for goods and services that has emerged during these years. Market growth encourages internal competition, leading to greater efficiencies and the introduction of innovative products in response to rising demand. At the same time, a growing market increases the rewards to foreign producers for penetrating the domestic economy.

Refugees and immigrants (legal and illegal) will continue to represent a significant share of labor force growth for the remainder of this century. The ethnic diversity resulting from these inflows has been and will be a source of both cultural richness and conflict over social and economic position. The NCEP's research was designed to examine immigration on a local and regional scale. This decision was made because recent research on immigration issues leading up to the passage of the Immigration Reform and Control Act of 1986 had revealed the unsatisfactory nature of national-level data on the topic. (1)

This project's research on immigration focused on the participation of legal and illegal immigrants and refugees in local labor markets and on programs that deal with the actual and potential negative impacts. One report, by Demetrios Papademetriou and Thomas Muller, concentrated on the diverse groups of immigrants in New York City and on local government programs affecting immigrants in New York, with short descriptions of similar programs in Chicago, Los Angeles and Miami. (2) A second case study, by David North and Poaze Thao, was concerned with Atlanta, which has a small, but rapidly-growing foreign-born sector. (3) The third report in this group, by Robert Ainsworth, reviewed the recent empirical literature on immigrants and refugees throughout the United States. (4)

The study by Papademetriou and Muller suggests strongly that recent immigration has at least in some sectors improved our ability to compete in

the global marketplace. Immigration has also promoted the level of international trade by the formation of ethnic enclaves and by the increase in the number of foreign-born entrepreneurs. This is evident, for example, in the growth in international trade between South Florida and Latin America following the influx of Cubans. Both language and the knowledge of customs facilitate such trade. Similarly, trade with Korea and other Asian nations is enhanced by the presence of Asian immigrants.

Factors Affecting Economic Status

The three reports addressed the question of how well groups of immigrants (legal and illegal) and refugees are integrated into the U.S. labor market, measured by such factors as labor market participation and unemployment rates, earnings, and types of employment. In addition, they examined various influences on the economic status of immigrants and refugees, such as length of time in the U.S. and the degree of networking with family, friends, and other ethnic and American associates.

Immigrants are more likely than native-born citizens to be in the labor force, in part becuse as a population they are concentrated in the prime working years. Unemployment rates among immigrants are generally higher than those for native-born whites, but lower than those for native-born blacks and Hispanics.

Immigrant earnings are generally below those for native-born workers. The picture is not homogeneous, however. The earnings of immigrants from Asia are close to the average for native-born workers, while Hispanic immigrants' earnings are much less. Differences in earnings usually reflect educational disparities, with Asian education levels usually exceeding the area mean. More recent immigrants have considerably higher educational attainment on average than earlier immigrants.

According to Papademetriou and Muller, recent legal immigrants to New York have come from predominantly urban backgrounds and have had the information, educational tools, and monetary means to leave deteriorating or downward spiraling economies in favor of better — if uncertain — opportunities in the United States. The profiles of recent undocumented immigrants in New York seem to parallel those of legal immigrants. Although immigrants are found in every occupation, a disproportionate percentage are employed in manufacturing industries. Asian immigrants are especially well represented in professional services and as self-employed entrepreneurs.

With regard to refugees, a number of patterns have been found. First, many Eastern European refugees have extremely high educational characteristics, exhibit relatively good English-language proficiency, and are relatively successful in the labor market. Second, while some Asian refugees also have comparatively high educational qualifications, these tend to be of a nature that does not allow the refugees to directly translate them into useful skills for the New York economy. As a result, their economic success is limited. Third, recent Southeast Asian refugees have rather mixed backgrounds, many have substantial problems with English proficiency, and have correspondingly uneven rates of successful incorporation into the New York labor market.

Evidence points strongly to the conclusion that length of time in the United States and the ability to translate qualifications into relevant skills for New York's labor market are strongly associated with economic success. With regard to refugees, refugee status itself, the organization and

competence of the private refugee reception system, the type of prior employment in the country of origin, and the group's length of stay in the United States exert strong influences on labor market status and earnings.

Household structure, particularly the presence of non-nuclear members in the family, seems to be a significant influence in the economic attainment of immigrant groups. Such presence increases the flexibility of nuclear family members to participate in alternative market and non-market activities.

Finally, Papademetriou and Muller found that ethnic enclaves are a key explanation of ethnic success. Together with ethnic networks and self-employment, the formation of enclaves in areas of high ethnic spatial concentrations allows immigrants to use ethnic and class resources — such as information, rotating credit arrangements, attitudes toward work and money, and values — to overcome disadvantages arising from other characteristics found among recent immigrants.

The North and Thao study of foreign-born workers in Atlanta found four sizeable and distinct groups: foreign executives of international firms operating in Atlanta; Korean immigrants; refugees, largely from Southeast Asia; and illegal (undocumented) workers, largely from Mexico. The international executives and the Korean merchants are very well integrated, the refugees less so, and the illegal aliens (so far) are largely confined to a specific part of the housing construction business in one geographic area.

Atlanta has not suffered, as other eastern cities have, from sharp declines in import-threatened industries, such as steel, shoes and textiles. Atlanta is not seeking to compete with low-wage, labor-intense foreign producers of clothing, as is Los Angeles. Foreign immigration to Atlanta has been growing, but remains below the national norm, and the input of the new arrivals appears to be largely bland to beneficial. And, at the same time, Atlanta has successfully lured considerable overseas investment as it has moved vigorously into international trade from an unusual setting, distant from oceans and borders, and until recently, off the path of international movements.

The study by Robert G. Ainsworth summarized research on the economic and social adaptation of refugees and undocumented workers and their impacts on local communities. The major findings and conclusions of the surveyed research need to be distinguished as to whether they apply to refugees or to illegal workers.

Refugees

The U.S. has admitted nearly two million refugees since the end of World War II, mostly from the Communist-dominated countries. Southeast Asians, with the Vietnamese being the largest group, have dominated the more recent arrivals. At the end of Fiscal Year 1985, there were approximately 760,000 Southeast Asian refugees in this country. While the Southeast Asians predominate among refugee arrivals since 1975, Cubans remain the largest group admitted since the Second World War, totaling about 800,000.

U.S. refugee placement policy through 1975 was aimed at dispersing refugees throughout the country so as to minimize their impacts on the receiving communities and to hasten their self-sufficiency. After 1975, placement policy for the majority of refugees was based on family reunification, which tends to increase concentration. In addition, many refugees migrate to other areas within the United States after initial

placement. One cause of this secondary migration appears to be the availability of higher public assistance benefits in some States. Other factors relate to the availability of work, the desire of refugee groups to live among people from their homeland and climatic preferences. California is the State in which the largest number of Southeast Asian refugees reside, accounting for about 40 percent in FY 1985.

There are a number of factors that influence the economic and social adaptation of refugees, namely their special eligibility for public assistance programs, training and employment services; their linguistic and socio-demographic characteristics; the amount of time they have spent in this country; and the availability of ethnic community organizations. The prospects for refugee self-sufficiency appear promising in the long-run; but during the early period in this country they tend to have low labor force participation, high unemployment, large numbers below the poverty level, and substantial reliance on public assistance programs.

Refugees' education and English language proficiency are among the more important predictors of labor force participation. Refugees' participation in full-time language training programs during the day slows their early entry into the labor force but is likely to lead to improvements in language proficiency and later success in the labor market. While the employment of refugees is affected by economic conditions, during their first few years in the United States their employment is primarily influenced by factors related to their personal characteristics, including their ability to speak English, and their special eligibility for public assistance. Residence in a State with a generous public assistance system dampens the labor force participation rate of refugees.

Undocumented aliens

There are an estimated 4 million to 6 million undocumented aliens in this country, slightly more than half of whom are from Mexico. About half of the illegal population live in California. The sparseness of empirical research on the economic adaptation of undocumented aliens is because they are in this country illegally and are difficult to track in the workplace.

There are very few government programs that aid economic and social adjustment for which illegal workers are eligible. The illegal population is ineligible for most public assistance programs, but children of illegals are eligible for public education, whether born abroad or in the United States.

Because they tend to be better educated, non-Mexican illegal immigrants are more successful in the labor market than their Mexican counterparts. For illegal (as well as legal) immigrants, occupational-kinship networks play a very important role in adaptation to the U.S. labor market. These networks benefit not only these workers, but also the employer, by replenishing a readily available pool of workers.

Impacts on Local Areas

Immigration has encouraged capital inflow to the New York region and to the entire United States, according to Papademetriou and Muller. The presence of Korean and Chinese nationals, for example, increases the flow of capital from South Korea and Hong Kong that is invested within and outside ethnic enclaves in New York and elsewhere. Investments from Mexico to Southern California and Texas and from South America to Florida are facilitated by the

presence of a large Hispanic population. Although the appeal of U.S. political and economic stability would attract capital from other countries to the United States regardless of immigration, the level of investment has probably grown faster because immigrants are present to channel and invest such funds.

Immigrants displace some American workers but concurrently immigration creates job opportunities. Displacement tends to be concentrated among native-born workers who are relatively unskilled. No direct evidence was found by Papademetriou and Muller to suggest any substantial displacement of workers in the New York area, regardless of skill. They also found that immigrants' demand for social services at the aggregate level is at or below the level of other New York residents. There is, however, wide variation in social service demand among immigrant groups, with Southeast Asian refugees' demand particularly high.

Displacement of native-born unskilled workers, often Blacks, appears to be taking place in Atlanta, to some extent, in the wake of the arrival of refugees (in some low-wage manufacturing activities) and as a result of illegal aliens in housing construction, according to North and Thao. These effects are mitigated by the high level of employment in the area. There is probably some wage-freezing caused by the undocumented workers as well, but again the numbers of workers affected, so far, are small.

As for job creation effects in Atlanta, the Koreans, the refugees and the illegal immigrants appear to have little effect, positive or negative (except that they expand the market for consumer goods slightly). The international executives, however, who have increased due to expansion of the foreign-owned operations in the area, appear to be outnumbered by a substantial margin by residents employed in these operations, a major job creation impact.

Looking at the labor market impacts of undocumented workers across the country, Ainsworth found mixed and somewhat inconclusive evidence. Undocumented workers do displace some native-born U.S. workers and do lower wages and working conditions in some occupations and geographical areas. The opportunities for U.S. workers sometimes are reduced where undocumented workers dominate segments of the labor market. On the other hand, undocumented workers in some instances create and perpetuate jobs for themselves as well as for some U.S. workers. Furthermore, they help to preserve some U.S. firms that, without such a supply of foreign labor, might move their operations overseas. The evidence is not conclusive regarding the overall or aggregate effects on the labor market. Rather, the evidence suggests that the labor market effects of undocumented workers may best be viewed as a series of local and regional effects which vary widely.

This conclusion is buttressed by a recent study by the General Accounting Office (GAO). (5) Their answer to the question of whether illegal aliens tend to depress wages and working conditions for other workers is a "qualified yes." It is qualified in the sense that such worsening could be observed in some specific labor markets, but not in all the cases examined. The GAO gave a "qualified no" to the question of whether illegal aliens tend to be found in deteriorating sectors of the economy. That is, illegal workers could be found in stable or expanding industries as well as ones suffering from reduced demand. However, the GAO points out that to the extent that the provisions of the 1986 Immigration Reform and Control Act are successful in reducing the inflow and employment of illegal aliens, some industries may be put under considerable stress as they attempt to cope with higher wages and reduced supplies of illegal workers.

The general consensus is that undocumented workers make little use of income transfer programs primarily because they are ineligible to participate in them. They are further deterred in California by the alien status verification system instituted in parts of the State beginning in the mid-70s. Illegal immigrants make much greater use of public education and health services; however, they appear to pay for a significant part of their medical expenses.

There were only a few studies reviewed by Ainsworth that focus directly on labor market impacts of refugees. This is because the Southeast Asians, the most intensely studied group, have been in the U.S. for a shorter period than the illegal workers, are less concentrated geographically and are more likely than illegal immigrants to be on public assistance or in training programs.

Barriers and Policy Responses

Each of the three reports prepared as background for this chapter examined factors which provided or previously provided barriers to immigrants' and refugees' employment, including their experiences prior to entering the U.S. Among such factors were socio-economic characteristics; the availability of public assistance programs, training programs and employment services; and economic conditions.

As a general rule, all four cities (New York, Chicago, Miami, Los Angeles) studied by Papademetriou and Muller make income assistance available only to naturalized citizens, permanent resident aliens, and aliens in the U.S. "under color of law." Differences arise only in the degree of the effort made to identify and exclude ineligible applicants. In a number of other services, as well as a number of programs administered by community development agencies, services are made available to all immigrants, regardless of immigration status.

A major resource tapped by different types of newcomers in all four cities is the large number of private sector service providers funded through a combination of private and public sources. These voluntary agencies (VOLAG's) often coordinate their activities with those of public service providers in order to offer services to all newcomers.

Among the most promising initiatives taken by New York City is the establishment of the Office of Immigrant Affairs, which attempts to offer policy guidance on immigration to city officials and to facilitate service planning by city agencies. In carrying out this mandate, the Office evaluates how immigrants affect New York and monitors the possible impacts on the City of federal legislative initiatives with regard to immigration and refugee policy. The Office also acts as a coordinating agency with other city departments for immigrant-related activities.

Chicago's official attitude toward newcomers is similar to that of New York in that it also attempts to offer immigrants equal access to municipal benefits, opportunities and services. Chicago, also in a manner similar to that of New York City, attempts to extend to all newcomers protection and health services, as well as employment and training services within the statutory requirements of each program. Of particular interest is a consortium of private Chicago metropolitan area service providers which emphasizes refugee job placement and job retention, within a comprehensive range of services to help refugees become self-sufficient in the shortest

possible time.

Miami's response to immigrants has been shaped by the city's experience with refugees during the past 25 years. As a result, most newcomers are viewed as refugees — with little regard to whether they actually have official U.S. refugee status. This shapes the perception of private and public service providers, who view newcomers as having a right to a political status. The emphasis of Miami's public service providers seems to be to continue to ensure that the federal government accepts the financial consequences of its foreign policy decisions by providing sufficient resettlement funds.

Los Angeles and Orange and Los Angeles Counties seem to be devoting significant resources to measuring the economic and social impacts associated with different types of newcomers to that area. Nonetheless, the newcomers' ability to receive appropriate services is not substantially different than that of immigrants in the other cities examined.

Papademetriou and Muller conclude that, specific differences notwithstanding, these cities are continuing to provide extensive services to newcomers and in two areas — health and education — most newcomers can count on continued wide access to these services. The picture is considerably less sanguine in other areas of service provision, however, particularly in language instruction for adults and effective assistance with obtaining employment. Overall, programmatic restrictions and lack of resources will mean that many of those who need to be reached and assisted will not be -- despite substantial cooperation between public and private service providers.

With regard to the methods used in Atlanta to forestall or alleviate negative impacts, North and Thao found that the principal methods used were directed at barriers to employment. Specifically, Atlanta has mounted several, small-scale (and successful) programs to help refugees overcome employment barriers. Atlanta is particularly interesting because it is something like a laboratory setting, in which the foreign-born are beginning to play a significant role in a labor market which had operated with little immigrant input for generations. However, the barriers facing undocumented workers are multiple and are probably growing more intense. These workers are unlikely to speak the language of the dominant society and there is little in the way of a Hispanic community structure to help them. In addition, the Immigration Reform and Control Act of 1986, which was enacted after the field work, provides penalties for employers who hire workers in illegal immigration status.

The Southeast Asian refugees, too, face linguistic barriers, and the difficulties implicit in finding work in a quite different culture; refugees in Atlanta, however, are much less likely to be living on welfare benefits than are refugees in other, higher-benefit, states.

Small-scale, tailored programs appear to find more jobs and services for the adult foreign-born than larger, less sensitive ones. Atlanta's experience with such programs as the Latin American Association and the Lutheran Ministries fits with other national research on the topic. When it comes to incorporating children into the broader society, Atlanta, like most communities, uses the schools.

Though it sees itself as the citadel of enlightened Black/white relations, Atlanta has not done quite as well with its native/foreign-born relations, North and Thao conclude. There needs › be more coalition-building among the

minority groups in the area, and more communications among the native-born whites and Blacks and the foreign-born. There appears to be an unfilled institutional niche for an organization that could approach these problems on a broad basis, and perhaps enlist some of Atlanta's foreign-owned corporations and its foreign-born executives in those community-building and healing activities.

Based on his review of a number of studies, Ainsworth reports that refugees' levels of public assistance usage are considerably higher than for most other populations, primarily because of their eligibility for special programs. Refugees' use of income transfer programs and public education is well above average, and their use of health services is average compared to other population groups. Compared with the total U.S. population, refugees make above average use of all social service programs as well; legal immigrants' social service usage is about average; and illegal immigrants' is below average.

To help lessen the negative impacts of undocumented aliens, the Immigration and Naturalization Service (INS) has developed Project SAVE (Systematic Alien Verification for Entitlements), now operating in seven States and three U.S. territories, which allows State and local government agencies access to INS's Systematic Alien Verification Index to verify eligibility of applicants for benefits. Similarly, the Counties of Los Angeles and San Diego have instituted systems aimed at excluding undocumented aliens from participating in benefit programs through verification with INS.

National programs and policies to alleviate adverse impacts of refugees fall into two categories. First, there are those related to initial placement, such as policy planning with regard to admission decisions, placement policy, and reimbursement of State and local costs. Second, there are the wide range of federal assistance programs that deal with the post-settlement experiences of refugees and refugee-impacted areas. These include cash and medical assistance; English language and employment-related training; care for unaccompanied refugee children; health care and funding assistance to local facilities; funding assistance to school districts; and national discretionary projects to improve resettlement operations at regional, State, and local levels.

Immigration Legislation

In 1986, new legislation was enacted to attempt to control the flow of immigrants across U.S. borders, particularly the flow of undocumented workers. This legislation, the Immigration Reform and Control Act of 1986, provides for employer sanctions or penalties to those employers who knowingly hire undocumented aliens; amnesty to those undocumented aliens who can demonstrate they have resided in this country since January 1, 1982; and a Special Agricultural Program for field workers who harvest certain perishable commodities.

The Act provided for an introductory "educational" period during which no penalties were to be imposed for hiring that took place before June 1, 1987. The Immigration and Naturalization Service (INS), which administers the Act, extended this period to July 1, 1987, because of delays in providing firms and workers with the necessary forms and instructions.

The impact of sanctions cannot be fully estimated until they have been applied, but there does seem to be some early indication that flows of un-

documented workers into the U.S. have diminished coincident with the start of the new law. To the extent that previously-undocumented residents acquire legal status, they should enhance both their mobility and marketability, which should act to increase their employment and earnings prospects.

Previous NCEP Recommendations

In January 1987, the Commission wrote to the Attorney General to recommend improvements in the immigration statistics system, along the lines advocated by the National Academy of Sciences Panel on Immigration Statistics in its 1985 Report. (See Reference 1)

The Commission also wrote to the Secretary of Health and Human Services in January 1987, recommending several program improvements with regard to refugees. Among these are:

- o English instruction that is more intensive and of longer duration, to improve chances of economic self-sufficiency.
- o exploration of ways to reduce the work disincentive effects of refugee public assistance payments.
- o an assessment of all support services that aim to help refugees become self-sufficient.
- o coordination of support services with State and local providers.
- o an evaluation of the effects of choice of initial location in the U.S. on the likelihood of attaining self sufficiency.

The goal of these suggestions is to increase the rate at which refugees move from dependency on governmental programs to full integration into the workforce. Facility with the English language is seen as key to the ability of new arrivals to enter the economic mainstream.

Summary

Because of the lack of adequate national data, this project has relied on field work in a number of urban labor markets. Case studies of this sort provide snapshots of the process of integration on the part of individuals and groups who have been in the United States for varying amounts of time. Almost by definition, the findings will be mixed with respect to the status of those studied. The studies reviewed by Robert Ainsworth extend these snapshots backward in time, and to some extent vary them by reporting on different groups. Policies of Federal, State and local governments have evolved in part in response to perceptions of the size of the refugee and (especially illegal) immigrant inflows.

The impression that comes from these studies is that people are receiving help in making progress in the labor market from private and public sources, and that immigrant status alone is not a barrier to economic integration. Lack of education, little facility in English, health problems, and the possible adverse incentives of public support on work behavior are cited as barriers to entering the economic mainstream, but these are not problems confined to those born abroad.

As has been discussed in Chapter II, immigration and trade can be viewed

as substitutes for each other. Immigration and investment, on the other hand, seem to go together in at least two senses. First, because immigrants use their own and others' resources in moving toward higher earnings opportunities, they are investing in their own mobility. Second, it appears that a number of migrants bring assets with them that are invested in U.S. businesses. Competitiveness, therefore, can be enhanced if productivity is improved, even if these businesses are not directly engaged in international trade. We should also not forget that for many immigrants, earnings gains _per se_ are less important than are the opportunities open to them and their children in U. S. society.

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CHAPTER IV.

INVESTMENT

As mentioned earlier, investment is used in several rather different senses in discussing the effects of internationalization. In addition to the concepts of direct investment in physical and human capital that are common to both domestic and international economies, investment also refers to the monetary flows that counterbalance the flows of goods and services on current account. Roughly speaking, if there is a difference between the overall value of current account exports and imports, a corresponding capital transaction has to take place for the trade accounts to balance. During the 1980s, for the U.S., the shortfall of earnings from exports compared to spending on imports has been made up by foreign acquisition of U.S. public and private debt instruments and real assets. It is in that sense that the United States has become the world's biggest debtor.

From the point of view of competitiveness and jobs, the long term implications of changing patterns of investment in physical and human capital are more important than reallocation of assets. For one thing, the ability to service and repay external debt depends on the growth of productive capacity as the basis for generating income. More broadly, domestic standards of living can grow only if the real productivity of our human and physical assets grows. In order for the United States to remain competitive in the sense already used, of being able to engage in free and fair international trade with a rising standard of living, investment should take place in sectors where the rate of return is highest, whether or not those sectors engage in trade. Trade contributes to a rising standard of living by enabling us to exhange things we produce relatively efficiently (e.g., computers, chemicals, corn and communications services) for things that other countries produce relatively efficiently. The United States would not increase its standard of living by attaining a trade surplus in apparel, steel or passenger cars.

Enhancement of Productive Capacity

The United States was, until recently, relatively little affected by international trade (in terms of imports or exports as a percent of Gross National Product), while being the most "multinational" of the developed countries (in terms of the proportion of U.S.-based firms' total investment and production taking place outside the U.S.). About twenty percent of the output of U.S.-based manufacturing firms during the mid- 1980s was made abroad, and most of that output was sold abroad. By contrast, Japan produced about five percent of its manufactured output outside of Japan.

Many of the goods that cross international borders move within the accounts of multinational firms. Multinationals consider tax treatment of profits earned in particular countries, relative labor costs, exchange rates, political influences (such as the existence of Voluntary Export Restraints), laws and regulations, and the market preferences of consumers in deciding where to produce. U. S. firms dealing with foreign firms consider the same list of factors except tax differences in choosing suppliers.

Research and development activities of multinationals have implications for the international competitiveness of the countries in which R & D facilities are located. World class technology tends to be implemented first in the country in which it is developed. While licensing and other arrangements aid in the diffusion of technology across borders, a country without R & D facilities in a particular sector will tend to be a follower, rather than a leader in that sector. Staffing R & D facilities represents an investment on the part of the nation, in addition to the funders of R & D. This is because part of the country's trained workforce is committed to a particular industry, and educational resources are devoted to preparing such workers.

Spreading of either production and R & D facilities around the world is a way of hedging against exhange rate shifts with adverse impacts on earnings. It may also be an appropriate response to exchange rate variability, as distinct from shifts in exchange rates that reflect longer-term structural factors. (1)

Investment in Education and Training

The earlier discussion of competitiveness focused on the role of productivity increases in contributing to rising living standards. The major factor in improved productivity has been the quality and amount of human capital a nation has available. (2) A key contribution of increased education and training is the degree to which they enhance adaptability to new circumstances. Better educated managers and workers are more able to respond to changed conditions in the markets in which they are involved. Generic problem solving skills have wider applicability than firm or industry-specific skills, and are increasingly in demand as firms introduce new technologies such as computer-assisted manufacturing. (3)

Compared to other developed countries, the United States has a very diffuse and decentralized education and training system. Among the strengths of this system are individual choice, flexibility and the ability of persons to make recurrent investments in themselves as situations change. This high premium placed on adaptability and entrepreneurial activity has been a traditional source of competitive strength in international markets.

As part of its study of the effects of investment in computer-based equipment on the labor market, the Commission asked Dr. Sue Berryman to examine the reactions of students and employers to technological change. Her conclusions also seem to apply to other types of demand shifts, such as those related to trade:

"Computer-based equipment promises to ultimately transform the American economy. However, 16-24 year olds evidence a range of behaviors that promise that they will adequately adjust to technologically-generated changes in skill requirements. In their educational process, they change their field of concentration — from mathematics to computers or from physics to engineering, thus reducing the time that is required to graduate specialists. They change jobs readily, a behavior that particularly helps meet technologically-generated changes in the demand for lower skill jobs. They change geographic residence quite easily, behaviors that can alleviate geographically-specific supply/demand imbalances. Successive groups of youth change the amounts and fields of education in ways that are consistent with changes in occupational opportunities. Finally, the sheer numbers that complete educational programs each year represent a remarkable opportunitiy to rapidly re-configure the

skill profile of the American labor force, given that graduates tend to choose fields of study in response to labor market conditions.

...

"In sum, creating, producing, and integrating computer-based equipment into the economy are facilitated if youth leave the school system with the type, level, and quality of skills required by this technological revolution. In this context, the public policy problems seem to be the tough ones of the quality of skills, not their type or level. The quality issue pervades secondary education, not just vocational education in the comprehensive high schools. It promises increasingly to affect the post-secondary system." (4)

Berryman's and other recent studies have pointed to the need to support more education, training, research and development, and other human capital investment activities in order to keep productivity growing and to stay competitive. A major part of this human capital investment takes place on the job. It has been estimated that within-firm training in the United States, formal and informal, costs employers over $100 billion per year. (5) Despite these very large sums, some analysts argue that smaller firms, in particular, tend to underinvest in human capital formation, and that since such firms have provided the bulk of net job growth in recent years, governments should provide incentives for increased firm-based training. (6) Such proposals are a specific example of the need to sort out the appropriate roles of the public and private sectors in providing and financing education and training.

Research and Development

Research and development of new products and processes are additional components of an investment strategy to enhance competitiveness. The people engaged in such R & D activity acquire further experience and insights which may aid them in future innovations. Federal agencies such as the National Institutes of Health and the National Science Foundation fund basic research, while firms tend to focus on applied research. A commonly-observed phenomenon, however, is the interactive nature of this process in particular areas, featuring combinations of strong universities and private research and development enterprises. Examples include Route 128 around Boston, Research Triangle Park in North Carolina, and Silicon Valley in California. Consortia in sectors such as semiconductors and biotechnology have also been advocated as ways to improve international competitiveness, but the evolution of such groups has been impeded by anti-trust considerations. Proponents argue that the relevant markets are global, and that a major U.S. market share is necessary to compete against similarly-structured foreign enterprises.

Investment-related legislation

Rates of return on alternative investments are affected by general economic policies as well as by specific provisions of the Federal Tax Code. Firms are typically more willing to invest if they anticipate an expanding economy than if they anticipate economic contraction. A broad objective of the 1986 tax reform legislation was to reduce the influence of tax considerations in making economic decisions, particularly investment decisions.

Legislative proposals have given increased attention to investment in human capital as an appropriate policy response to both worker displacement and the need for increased competitiveness. Some proposals involve direct funding of education and training, such as the Job Training Partnership Act,

and the adjustment proposals contained in the trade bill— discussed in the next Chapter. Other proposals involve financing private sector activities via tax expenditures — deductions and credits. Some Internal Revenue Code provisions relating to training and retraining include:

o Employer Educational Assistance (Section 127): Payments made by employers on behalf of employees enrolled in education and training programs are excludable from employee taxable income up to $5,250 per year. The exclusion covers training or courses for a new job or career as well as upgrading or maintenance of skills in the present job. Section 127 payments are likely to be items such as reimbursement of employees who took courses at community colleges or other outside institutions. In-house courses are deductible business expenses just like other costs to firms, and are not separately accounted for.

o Employees' own spending that is not reimbursed under Section 127 or otherwise may be deductible from the individuals' income tax returns (Section 162). The key difference from Section 127 is that educational expenses are deductible only to the extent that the education or training is required as a condition of a worker's present job or if it maintains or improves present job skills. Training to enter a new job is not a deductible individual item although it is for a firm under Section 127. Such a restriction may generate more problems in the future, given the consensus on the importance of adaptability and the need to prepare for new, as yet unknown, occupations.

o Targeted Jobs Tax Credit (Section 51) provides a subsidy to firms hiring workers from a number of specified target groups, including disadvantaged youth, some handicapped individuals, and participants in the Work Incentive program. Continuance of Section 127 was omitted from the new tax act, and Section 51 is scheduled to expire at the end of 1988. New authority for both provisions is under Congressional consideration.

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CHAPTER V.

POLICY IMPLICATIONS

Roles and Responsibilities

Increased internationalization has altered customary patterns of work and consumption. Firms and workers competing with imports have had to respond with increased productivity and other efforts in order to stay competitive. Individuals about to enter or reenter the labor market have had to reconsider career choices in the light of altered job opportunities. The Commission's earlier study of the impacts of computers in the workplace emphasized the need for firms and individuals to prepare for a change. This project has reinforced that perception. (1)

Students and their parents, teachers, administrators and all others related to the education and training system have the basic responsibilities of preparing individuals for entry or reentry into productive activity. Firms can aid in the achievement of that goal, by providing information and other assistance to schools and students. That achievement will not come cheaply. There are signs that the messages from the various task forces and commissions on educational reform have been heard, in the proposals for merit pay, competency testing and so forth.

Individuals and firms in their roles as taxpayers seem inclined to accept that internationalization is both inevitable and potentially rewarding, but that its rewards carry both risks and penalties for failure to adapt to change. Labor-management cooperation is another essential component of successful adaptation to change. The Commission-sponsored report, Human Resource Practices for Implementing Advanced Manufacturing Technology, (2) concluded that to get the full benefits of these new technologies there will have to be "systematic—not piecemeal—change in the management of people and machines." (p.2) The direction of the appropriate change is away from hierarchical firm structures and authoritarian styles of management and toward a more interactive and flexible organization. To the extent that the United States has social and educational structures more favorable to that form of organization, we may be able to secure a competitive advantage by moving more rapidly towards effective implementation of new technology than other countries can or want to do.

Local and State administration of public school systems is one such source of flexibility and diversity. Devolving detailed administration of the Job Training Partnership Act (JTPA) to local Service Delivery Areas and State governors is an attempt to provide some of this flexibility and diversity within a Federally-financed program. Under JTPA Title III, the States are the primary deliverers of adjustment services to dislocated workers, while Trade Adjustment Assistance has primarily served to maintain the incomes of those certified as adversely affected by imports. (3) This combination of Federal, State and local efforts is continued in the proposed Worker Readjustment Assistance Program (WRAP) that was part of the 1988 trade bill. (see below)

Most States and many local areas have made efforts to recruit foreign as well as domestic firms part of their economic development programs. Some of the major projects, such as Honda in Ohio or Toyota in Kentucky, have involved highly competitive State merchandising campaigns with a bevy of tax

incentives. There is some question as to whether there is any national interest served by such competition. A firm is likely to have located within the same general area for market reasons, so that the incentives and other efforts may have converted a zero-sum game into a negative one, if the fiscal capacity of the winning area takes on a long term burden.

Federal programs can positively affect international competitiveness in a variety of ways. Research and development contributing to innovation of new products and services, refugee assistance, retraining and mobility programs, and tax policies that increase both saving and investment can all have a positive effect. At the most basic level, continued commitment to open markets and a functioning international economy may be among the most important Federal roles. U.S. obligations to the General Agreement on Tariffs and Trade (GATT), World Bank, International Monetary Fund, Organization for Economic Cooperation and Development, International Labor Office and other international organizations help secure the major benefits of the international trading system to all: improved choice, better quality, lower prices and a more effective allocation of resources around the world. Participation in the "Uruguay Round" of GATT talks, which started in 1986, is a major current activity in which the U.S. has a chance to help the system work both more fairly and more effectively. (4)

Trade legislation

Both the House and Senate developed major trade bills in the 100th Congress. The House version (H.R. 3) was passed and sent to the Senate in May 1987. A Senate bill was passed in July 1987 and a conference, producing a single bill completed by April 1988. The bill was overwhelmingly passed by the House and Senate and sent to the President in May 1988. President Reagan vetoed the bill, largely on the basis of his objection to a provision mandating large firms to give notice of plant closings or sizeable layoffs.

In contrast to the conflict over advance notice, bipartisan support was given to a new, expanded Worker Readjustment Assistance Program (WRAP) that would replace Title III of JTPA and modify Trade Adjustment Assistance. The program follows the recommendations of the Secretary of Labor's Task Force on dislocated workers in many respects. Major elements of the WRAP program (which may be reintroduced as separate legislation) included:

- Funding of $980 billion dollars in FY 88. (approximately triple the spending level of Title III plus TAA)
- State "rapid response" teams to provide services before layoffs and closings.
- Demonstration programs focusing on displaced farmers.
- Improvements in State "job bank" systems.

Similar proposals that focused on TAA have been advanced by Robert Z. Lawrence and Robert E. Litan. (5) Lawrence and Litan advocate that training be financed by a combination of grants and loans to displaced workers. Repayments of the loan would be based on the extent to which a worker's earnings on the new job exceed his or her previous pay. They also suggest a program under which communities could insure themselves against losses in their tax base (due to plant closings, say) that would otherwise have adverse

impacts on their ability to attract new jobs.

In addition to the positive adjustment provisions, other parts of the trade bill contained protectionist clauses that diverted attention from the competitiveness-enhancing features. A detailed analysis of the trade bill is beyond the scope of this report, but a main danger of such protectionist provisions is that they would invite retaliatory action that would reduce the volume of and gains from trade, and make more difficult the United States' attempt to lower its budget and trade deficits.

Concluding Comments

This project began with a pair of questions. To refresh the reader's memory, they are:

- **What has been the effect of the internationalization of the economy on jobs and wages so far, and what is the outlook for the rest of the century?**

- **How can public and private human resource policies aid in labor market adjustments required by the increased internationalization of the economy?**

While it is clear that jobs and wages have changed and will continue to change, we are less confident than we were at the outset of this project that unambiguous "effects" can be assigned to internationalization. It is one of a number of interrelated factors, such as technological change, deregulation, monetary and fiscal policy, and uncontrollable "shocks", such as the gyrations of the oil market, that have all impinged on the economy. The outlook for the 1990s would best be analyzed as a set of more or less likely scenarios, similar to those structured by Stone and Sawhill for the latter part of the 1980s.

The most general answer to the question on economic effects has to start with the idea that there have been both winners and losers from internationalization. In our role as consumers, we have all gained from trade, via lower prices and an expanded array of goods and services. The pattern of effects on producers is more complex. In general, the composition of output and employment changed during the first half of the 1980s in favor of professional, technical and service activities and against manufacturing production workers and their products. That effect was highly conditioned by U. S. monetary and fiscal policy and the value of the dollar. Over the 1985-88 period, dollar depreciation against most major currencies has aided a resurgence of exports, but without dampening imports. Although exports have increased, the numbers and skill mix of the workers producing them have changed as new technologies have been implemented.

Predictions through the end of the century need to be conditioned on the prospects for economic growth and macroeconomic policy. To the extent that the world economy will continue to become more interdependent, competitive pressures will intensify. Whether this is good or bad for the United States will depend on the responses of firms, workers and governments to these pressures on product markets, labor markets and legislative assemblies.

A major point in this report has been that the U.S. trade deficit cannot be maintained indefinitely. Trade in goods dwarfs trade in services, so that for the trade deficit to be reduced, the manufactured goods deficit has to

approach zero. Another important point is the nature of the services that are linked to goods production. High value-added services, such as design, engineering, law and architecture, are "upstream" of the production process, and are unlikely to remain in the U.S. if the manufacture of the products to which they are linked goes offshore. The leading edge products and processes are those which use high value-added services most intensively. For the U.S. to remain competitive in the sense of participating in trade while enjoying rising living standards, such world-class manufacturing has to succeed.(6) This means that the "hollow" manufacturing corporation is not a viable alternative, and neither is an economy based on customer services as opposed to producer services.

An answer to the second question, on appropriate human resource policies, depends on the answers to the first question. The labor market adjustments "required" by the increased internationalization of the economy will differ depending on the course that internationalization takes. If national policy is based on the view that competitiveness lies in initiating and expanding innovative product development, aggressively marketing abroad, and staying on the leading edge of technology, the adjustments called for are in the direction of <u>improving</u> the human resource base of the economy. (7) Such a policy orientation would mean that more public and private resources are devoted to the educational system, that employers increase their commitment to recurrent education and upgrading of skills of their existing and future workforce, and that Federal taxing and spending policies favor investment and saving over consumption and borrowing. Of course, these same policies would be preferrable even if there were no trade at all, because they would improve the domestic economy. However, the need is more critical and time is shorter because other countries are perfectly able to adopt similar policies that would enhance their competitiveness.

If, on the other hand, protectionist sentiment prevails, and legislation is enacted which attempts to retaliate against trading partners that have "excessive" current account surpluses versus the U.S., the labor market adjustments "required" by the kind of internationalization we would get would more likely mean a lowering of our living standards and our ability to compete. The Commission is encouraged by the fact that this latter line of response is increasingly being rejected, and more individuals and organizations, such as the Council on Competitiveness in their April 1987 Policy Statement, "Restoring America's Trade Position," are coming to recognize the interaction of trade, competitiveness and human resources. (8)

It is important to realize that the United States and the other countries with which it shares the world are not facing a transition from one smooth flight path to another, that once managed can be locked on to automatic pilot. Rather, we are more like a small boat flotilla in a rough sea, needing to watch in all directions. Without a sense of where we want to go, we could be pushed anywhere—into each other or on the rocks. We need to remember the sailors' maxim: first set your course, then set your sails.

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